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Inside

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Providing Clients a New Perspective

Helping your clients to focus on critical success factors and measure results

By Edward Gregory, CPA

According to a recent survey by the Institute of Management Accountants, 80% of respondents reported making changes in their performance measurement systems. Asked how effectively their existing systems supported their strategic business objectives, almost one-third considered their systems to be poor or less than adequate. Clearly, many organizations are seeking better performance measurement systems.

To teach CPAs how to leverage their current skill sets to provide performance measurement services to clients or their own employers, the AICPA Special Committee on Assurance Services developed CPA Performance View. Performance measurement theory seeks to find the critical success factors (CSFs), both financial and nonfinancial, that drive a business's success and then determine the performance measures that will help focus the efforts of the company's employees on those factors.

Rather than working toward realizing such global goals as increasing profit or cash flow or decreasing cycle times, employees focus on items within their area of control that will lead to achieving the global issues. For example, their goals may be reducing accounts receivable (AR) days outstanding, up-selling, or decreasing change orders. In addition, rather than giving just an historical view of an organization's information, performance measures can—and should—include information that provides a predictive measure of future performance.

Since the launch of the service line in late 1991, which includes a training workshop, practice guides, and software, more than 400 practitioners have attended the CPA Performance View PLUS workshop and several hundred more have purchased practice guides.

Cases in Point

What results from this training and education? Are participants rewarded for their investment in time and resources? One firm reaped a return on its investment almost immediately.

Consider the case of one CPA firm, Hildebrand, Limparis & Hevey, CPAs, PC (HLH), Frederick, Maryland, an accounting firm offering business advisory, tax, and accounting services. Three partners—Carl Hildebrand, Christine Limparis, and Joanne Hevey—oversee the firm, established in 1994, and the staff comprises six additional employees.

Two of the firm's three partners attended the AICPA's CPA Performance View PLUS workshop to learn how to deliver performance measurement services. Chris and Carl attended the October 2000 CPA Performance View PLUS conference in Orlando, Florida, unaware that it would result in immediate business. One week after their return, they received a phone call from a prospect their firm had pursued for more than a year. The prospect, a national direct mail company specializing in the sale of aquatic plants, fish, pumps, and garden pools, required business management services that were not available from the firm providing their accounting services.

Turning Business Around

Chris and Carl were told that the third generation, family-owned business had had a poor fiscal year, losing $400,000 on sales of $5 million. The emotional burden imposed by the financial, staffing, and operational difficulties facing the company were so great that the president was considering selling the company, an outcome that seemed increasingly likely, unless business improved.

Although the concepts and protocols associated with the CPA Performance View PLUS program were new to Chris and Carl, they nonetheless believed its implementation could be tremendously beneficial to the company. To execute the program successfully, they first had to address an internal professional paradigm. "We're accustomed to being the answer people—able to provide the information our clients need," said Carl."The program methodology required us to facilitate getting the answers from the company's personnel. Although conceptually simple, it was a major change for us—given the fact that we had just attended the conference."

The partners reviewed the materials provided by the program, making certain they fully understood the process. They then called Edi Osborne, the Performance View workshop leader and coowner of Mentor Plus, who assured Chris and Carl they were ready for the task and encouraged them to trust their knowledge. "It really was a matter of trusting the program and the skills we already possessed," recalls Chris. "To compensate for our limited experience, we were somewhat obsessive in planning our presentation and anticipating the questions we believed might arise during the sessions. In doing so, we really improved our skill as presenters."

Opening Eyes

Chris and Carl initiated the program through employee discussions concerning the company's present condition, its potential, and the steps that might transform the company. "The 'What-If' planners opened the employees' eyes to the power of change," said Carl. "Employees learned that small changes in several operational areas could have significant service and financial ramifications for the company."

Chris and Carl helped employees focus on a set of measures. To that end, they began tracking and setting goals for problem issues such as back-order days, vendor training sessions, attendance, returns, average sales by department, and more. The company president told Chris and Carl that this was the first instance in her memory of a comprehensive review of work issues. Performance measures also provided for improved communication and greater team playing between departments. This in turn improved employee morale and customer service, and ultimately, increased customer loyalty.

The financial ramifications of the program were also substantial. In the first year with performance measures in place, the company showed an $80,000 profit following the $400,000 loss experienced the year before. Profits continue to improve and all concerns about selling the company have dissipated. The client hired HLH to provide its comprehensive accounting services.

Success Breeds Success?

HLH had additional success using CPA Performance View with a second client, a custom glass and mirror company with annual sales of approximately $1 million. After 12 years in business, the company was still growing in sales and employees—but at a price. The owner felt he was losing control of the business and had become frustrated with personnel issues. He was an experienced service provider largely responsible for developing the business, but he was not accustomed to managing others or delegating work duties.

Although the owner realized that managerial changes and standards were needed, he was wary of consultants. He believed that he had previously been "taken" when he spent $25,000 on a program that yielded little more than a large underused notebook occupying his bookshelf.

Chris and Carl's presentation of a program module, "What Keeps You Awake," appealed to the owner's sense of practicality, resulting in his investment in a performance measurement engagement. The engagement began with a four-hour planning session that included the entire management team. During this time, Chris and Carl facilitated the development of an action plan with the primary goals of improving work quality and motivating employees.

The company initially focused on performance measures related to rework and materials waste. A weekly flash report was posted for each employee noting the number and reason for customer callbacks as well as materials waste due to breakage or incorrect measurements. As a work incentive, employees who now achieve a perfect

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record for the week receive a bonus up to $50. Since the program's implementation, errors in these areas dropped dramatically.

A regimented program of inspections was also created to improve job quality. The inspections included a 100% review of incoming materials; one random in-field job inspection per week; 100% inspection of all jobs priced over $2,500; and one scheduled in-field training per week.

Realizing that customers were unaware of the comprehensive services it offered, the company initiated measures related to up-selling. The company now tracks the average sale by type of service to monitor the effect of new up-sale efforts. In addition, the company is considering an employee bonus pool to provide incentives for up-sells. The company has also begun tracking the conversion rate of cost estimates to get a better understanding of its competitive stance in the marketplace.

"As we've helped the owner set base measures and monitor the variables that affect those measures, it's no longer guesswork as to what works and what doesn't," says Chris. "The owner has definitely gained more control over his business."

Everyone Wins

"It is exciting to see how the service we provide affects the companies we work with," says Carl. "Clients who have undergone CPA Performance View are doing better both financially and operationally. Furthermore, employees are happier and understand what is expected of them, and the need to micromanage has diminished, if it has not been eliminated," says Carl. "We feel better about our ability to serve clients, making our work more satisfying."

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Are Performance Measurement Services Right for You?

Performance measurement may or may not be right for you to add to your menu of services. But don't make that decision until you've informed yourself. Several resources are available that can help you decide whether to offer the service. A good place to start to look for information is www.aicpa.org/assurance/view/start.htm. There you'll find a list of resources developed to help you learn about the CPA Performance View service line.

Making Internal Marketing Work

Some techniques for encouraging your colleagues to sell your services

By Melinda Guillemette

Of all the things CPAs can do to develop new clients and deepen existing client relationships, internal marketing is among the most fruitful. A solid internal marketing system takes you far in your effort to get more and better business. Fortunately, it's one of the simplest and least uncomfortable business development activities.

Practical internal marketing is a process that educates all employees about the firm's services and who in the firm provides them. Just let everyone in the firm know what services the firm offers and who provides them. Although the process seems simple, at least four obstacles can impede effective internal marketing:

1. Often, the internal marketing process is informal at best. Employees simply talk to each other and develop relationships on their own. When a firm reaches a certain size (probably more than 25 or so) or opens multiple offices, that informal system tends to disintegrate unless you foster a culture that values interdepartmental or interoffice communication and cooperation.
2. Adding to the complexity, the possibility of a breakdown in communication and trust increases when a firm hires specialists in a given area. We don't trust what—or who—we don't know or understand.
3. CPAs focus most of their efforts on billable work. They usually aren't interested in yet another meeting that cuts into billable time. Educational sessions on the firm's services certainly fall into that category.
4. Most professionals won't make the effort to get to know other team members, particularly in larger firms. They're busy; they're often introverted; and they're rewarded and recognized primarily for racking up billable hours. They can't see what's in it for them as individuals when it comes to internal marketing.

Jumping the Hurdles

None of these problems is insurmountable. Here are a few techniques you can use to increase the effectiveness of your internal marketing efforts:

- **Begin with new employee orientation.** Instead of burdening new employees with a recitation of personnel policies they could easily read on their own, introduce them to your firm's services and experts. Give each department five to ten minutes (no more, because the new folks are already on information overload) to present an overview of what each department does and who does it. Have your most energetic speakers represent each group. Encourage new employees to visit individuals in other departments after they're settled. If your tax people don't know your financial planning or benefits administration people, how can they possibly recommend their services?

Letters to the Editor

The Practicing CPA encourages its readers to write letters on practice management issues and on published articles. Please remember to include your name and telephone and fax numbers. Send your letters by e-mail to pcpa@aicpa.org.

- **Encourage "cross-eating."** Rather than thinking about internal marketing or cross-selling, encourage cross-eating. Food is the best icebreaker among people. Encourage interdepartmental lunches. Consider organizing lunches or providing food. Follow up regularly to see whether employees are participating. (Here's a hint—they'll do it if you and other senior people in your firm do it. People naturally emulate what they perceive to be successful behaviors, so if you start the process, they'll follow. The flip side of this, of course, is if you're sitting behind your desk 60 hours a week with your door closed, they'll emulate that behavior, too.) Congratulate employees for getting to know their coworkers and communicate the benefits of doing so to others.
- **Use star performers.** Of course, conduct regular internal training sessions on all your services. The important thing is to have your very best presenter do the training. Too often, internal training is relegated to either a department head or the most technically astute employee. An accurate-but-dull presenter will hinder your internal marketing effort. An energetic, likable, enthusiastic team member will help capture the attention of others, and generate excitement about the service.
- **Discount new services.** Consider allowing employees to offer new services at a discount. Nothing works better than word-of-mouth advertising. If you can make your employees advocates of your services, they'll be your best referral source for new business.
- **Cheer on the team.** Reward and recognize the people who let clients know about new services. It doesn't necessarily have to be a financial reward. Sometimes a simple thank-you note or e-mail does the trick.
- **Use your internal newsletter and intranet effectively.** Ask each department to submit information on current activities and to provide good news about business development efforts. Remember that the goal in these venues is to inform and uplift.
- **Discuss results honestly.** Conduct your marketing meetings effectively. This is the time for frank discussions about which internal marketing efforts are working and which aren't. It's absolutely ***not*** the time for displays of hot air. Trust builds when people are honest with each other. Sharing both successes and failures (call them learning experiences if you want) enables people to understand the complexities of the firm's different services, what makes them useful, and what services clients are and aren't accepting. It is also a unique opportunity for problem solving. Honesty in communication is simply invaluable to your firm.

A Few Tough Last Words

One last suggestion, and it's the toughest and most important. If you aren't already doing so, work hard at changing your culture from one that recognizes and rewards only billable time and technical acumen to one that honors business development, training, and mentoring. That means starting at the top and really (not just nominally) changing the criteria for partnership to include all the skills that make a business successful—not just seniority and technical mastery.

By recognizing and rewarding a balanced set of skills, and by implementing these simple steps, your internal marketing process will be stronger, your revenue will be higher, your clients will be better served, and your team members will be your very best sales force.

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FYI

PCPS, an alliance of the AICPA, represents more than 6,000 local and regional CPA firms. The goal of PCPS is to provide member firms with up-to-date information, advocacy, and solutions to challenges facing their firms and the profession. Please call 800-CPA-FIRM for more information.

PCPS
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Update

PCPS and the New Accounting Fraud Standard

On October 16, the Auditing Standards Board (ASB) of the AICPA approved a new standard for detecting fraud, the Statement on Auditing Standards (SAS) No. 99, ***Consideration of Fraud in a Financial Statement Audit*** (AICPA, ***Professional Standards***, vol. 1, AU sec. 316), in order to "restore investor confidence in U.S. capital markets and to reestablish audited financial statements as a clear picture window into Corporate America." The standard, which is effective for audits of financial statements for periods beginning on or after December 15, 2002, has several key provisions, including increased emphasis on professional skepticism, discussions with management, unpredictable audit tests, and responding to management override of controls. Please contact PCPS at 1-800-CPA-FIRM or visit us on the Web at **www.pcps.org** for guidance tools and resources to help your firm understand and implement the provisions into your audit planning.

Coming Up

The Major Firms Group will meet in Naples, Florida, from January 3–5, 2003. What is the Major Firms Group? The Major Firms Group was founded in the mid 1970s as Group B, an advisory group for firms with more than 50 CPAs (not including, at the time, the 8 largest firms, which formed Group C). The group currently consists of 84 member firms, and its objective is to provide a forum in which large firms can exchange views on issues particular to their practice so as to provide input to existing committees and boards. It does not itself establish policy or standards. We hope you'll join us to discuss timely management and practice issues currently affecting CPA firms of this size. For more information, call 1-800-CPA-FIRM.

Save the Date

Mark your calendars now! The Practitioners Symposium will be held from June 8-11, 2003, at the Point South Mountain in Phoenix, Arizona. Last year's Practitioners was a huge success with CPAs from all over the country coming to receive valuable CPE geared toward local and regional firm practitioners and to help PCPS celebrate its twenty-fifth anniversary. We hope you'll all come join us again! Please check back in at **www.pcps.org** for updates on how to register and watch PCPS Update in the coming months for news on issues to be discussed.

PCPS and The New Accounting Culture

On September 4, 2002 Barry Melancon, the President and CEO of the American Institute of CPAs, gave a speech at the Yale Club in New York City on "A New Accounting Culture." In it, he outlined a plan for reestablishing the reputation of the accounting profession. Although the focus thus far in the media has been on malfeasance involving the balance sheets of publicly traded companies, Barry noted that the entire profession must take on the responsibility of demonstrating that the transgressions of a few are not the rule. In particular, he highlighted the importance of small firms, noting that small business makes up roughly half of America's economy. These companies "depend upon their CPAs for expertise and trusted advice." PCPS is committed to providing you, the core providers of auditing and tax advisory services to small businesses in America, the resources you need to set the standard for professionalism within the profession.

Gleaning IRS Guidance

Valuing assets for a client? Here's part I of a primer on IRS pronouncements that may provide guidance

By Robert F. Reilly, CPA/ABV, CFA, ASA, CBA

CPAs who practice in the litigation support-expert testimony arena often seek professional guidance with regard to valuing unique assets, properties, or business interests. Sometimes, the guidance they seek relates to applying unusual valuation adjustments (discounts and premiums); adjustments for special market conditions; or preferred approaches, methods, and procedures in special circumstances. Typically, CPAs first research the relevant professional appraisal standards, appraisal literature, and appraisal organization publications and course materials. If these sources are insufficient, CPAs may next research the relevant statutory authority, judicial precedent, and administrative rulings, particularly if the valuations will be subject to judicial scrutiny.

When seeking professional guidance regarding litigation-related valuation, CPAs first consider statutory authority and judicial precedent regarding the specific litigation matter. However, if this guidance is still insufficient, CPAs may look to Internal Revenue Service (IRS) pronouncements. Even though such pronouncements may have no legal standing with regard to the subject litigation matter, numerous IRS pronouncements and publications provide professional guidance concerning preferred valuation methodologies, procedures, data sources, and reporting.

To use these pronouncements and publications effectively, CPAs need to understand the relationship and relative authority of IRS pronouncements, as well as their relative precedent value (or lack thereof) with regard to federal taxation valuation matters.

Federal tax law

The authorities that constitute "the law" with regard to federal taxes are the Internal Revenue Code (IRC) and the Code of Federal Regulations (CFR). The IRC codifies all federal tax laws including income, estate, stamp, gift, excise, and other taxes. To implement the IRC, the federal government designated the Treasury Department to supervise administration and enforcement of the federal tax laws and created the IRS. The IRC is the final statutory authority on federal taxation issues.

The current codification of the U.S. tax laws is the IRC of 1986. The IRC is divided into subtitles, chapters, subchapters, parts, subparts, sections, subsections, paragraphs, subparagraphs, and clauses. Subtitle A includes the tax law related to income taxes. Subtitle B includes the tax law related to estate and gift taxes. A sample citation would be, for example, IRC Section 2001 estate and gift tax imposition and rate of tax.

The CFR is the annual accumulation of executive agency regulations published in the daily ***Federal Register***, combined with all regulations issued previously that are still in effect. Title 26 of the CFR pertains to the IRC, and Part 1 of Title 26 relates to federal income tax. A sample citation would be, for example, T.26 CFR Ch. 1 Pt. 20 estate tax.

Official IRS positions

The IRS regularly publishes its official positions in various publications. Among these publications are regulations which explain IRS positions, set rules of operation, and provide details on complying with the federal income, gift, and estate tax laws (for example, Regs. Sec. 54.4975-11 employee stock ownership plan requirements). Regulations are typically classified into the general categories: (1) legislative, (2) interpretative, and (3) procedural. Regulations often include examples with computations that are intended to assist taxpayers (and valuation analysts) in understanding the statutory language.

Regulations represent the official Treasury Department interpretation of the IRC. The courts generally accord regulations the full force and authority of the Code, as long as they are reasonable and consistent with the statutory provisions they interpret. Before final regulations are issued, a notice of proposed rulemaking must be issued to give the public a chance to comment on the proposed rules.

A proposed regulation generally is given little weight as a legal precedent. Nonetheless, it may be relevant to a valuation because it reveals the direction of IRS policy in a particular area. Sometimes, a proposed regulation states that taxpayers may rely on it until the issuance of a final regulation.

After a major statutory change to the IRC, the IRS often issues temporary regulations, which are usually effective upon publication. Temporary regulations give taxpayers (and valuation analysts) guidance on procedural or computational matters until the IRS develops (and the Treasury Department approves) final regulations. Temporary regulations are always issued concurrently as proposed regulations.

When the IRS Commissioner, with the approval of the Treasury Secretary, has finalized the instructions and interpretations of a regulation, a Treasury Decision (for example, T.D. 8940) is issued. A Treasury Decision includes a preamble statement that describes the contents of the new final or proposed regulation in a manner suitable for readers who are not experts in the subject matter of the rulemaking document.

The promulgation date of a Treasury Decision is the date the document is filed by the ***Federal Register*** (FR) for public inspection. Such regulations are effective for the period covered by the law section they interpret unless they specifically provide otherwise.

Revenue rulings

A revenue ruling (for example, Rev. Rul. 59-60) is an official interpretation by the IRS of the tax laws, related statutes, tax treaties, and regulations that has been published in the weekly ***Internal Revenue Bulletin*** (IRB). A revenue ruling states the IRS position on how the law is applied under certain facts. A revenue ruling may have any of the following authority on other IRS pronouncements: amplify, clarify, distinguish, modify, obsolete, revoke, supersede, supplement, and suspend.

Revenue rulings do not have the force or the authority of regulations (or of federal court cases). Revenue rulings simply present the IRS view of the tax law, and the IRS may not rely on a revenue ruling that is contrary to a regulation.

A taxpayer may rely on a revenue ruling if the facts of the case are substantially the same as those in the ruling and if the ruling has not been superseded. Revenue rulings generally apply retroactively, as do modifications or revocations of revenue rulings. Soon after it is released, a revenue ruling is published in the weekly IRB.

Other pronouncements and publications

In addition to the aforementioned pronouncements and publications, the IRS issues the following:

- ***Revenue Procedures (Rev. Proc.)*** (for example, ***Rev. Proc.*** 97-19, 1997-1 C.B. 644). A revenue procedure is an official statement of the IRS practice and procedure that affects the rights or duties of taxpayers under the IRC or that contains information the IRS believes should be public knowledge. Revenue procedures are first published in the IRB and later in the ***Cumulative Bulletin*** (CB). As the name suggests, revenue procedures usually address the procedural aspects of tax practice. Although revenue procedures do not have the force and effect of regulations, they do have the same precedent value as revenue rulings.
- ***Federal Register***. The IRS is required by law to give interested persons an opportunity to participate in the rulemaking process. The daily FR is the medium for making federal agency regulations and other legal documents of the executive branch available to the public.
- ***Internal Revenue Bulletin***. The IRB is the authoritative publication of the official rulings and procedures of the IRS. Published weekly, the IRB is a means of promoting the uniform application of tax laws by both the IRS and taxpayers.
- ***Cumulative Bulletin***. In order to provide a permanent reference source, the contents of the weekly IRB are consolidated semiannually into an indexed CB. In the illustrative citation above regarding revenue procedures, ***Rev. Proc.*** 97–19 is the nineteenth revenue procedure that was issued in 1997. ***Rev. Proc.*** 97-19 is printed in Volume 1 of the 1997 CB, on page 644.

IRS instructional publications

The ***Internal Revenue Manual*** (IRM) is a compilation of instructions by the IRS for the guidance of its employees when administering various tax laws (for example, IRM Sec. 87 appeals technical and procedural guidelines). The IRM does not have legal precedent standing. It is useful to CPAs, however, in that it clarifies the meaning of specific tax terms, amplifies the regulations, and sets forth the IRS position on numerous topics.

The objective of the IRM is to be the chief line of communication of IRS National Office policy to IRS field agents. The IRM sets forth the policies, procedures, instructions, and guidelines for the IRS organization and its operations. It also addresses the day-to-day conduct of IRS examinations, agents, appeals officers, and other personnel. The IRS is currently reorganizing the IRM completely.

Although the IRS is bound by the procedural rules it adopts, the IRM policies and guidelines are not legally binding. This is because IRM procedures are directory and not mandatory. The value of the IRM as a practitioner's professional guidance tool is to indicate the direction of the IRS thinking on a particular issue.

The IRS Valuation Training for Appeals Officers is a course book for appeals officers. The course book provides valuation analysts with IRS insights into valuation concepts and methodologies. Specific areas discussed in the course book include the financial analysis and valuation of closely held corporations and methods for valuing real estate, tangible personal property, art objects and collectibles, preferred stock, and intangible assets and intellectual property. In addition, this course book discusses valuation discounts and premiums, restrictive agreements and buy-sell agreements, and valuation-related tax penalties.

Announcements, notices, and news releases

The IRS uses notices and announcements to provide guidance on a particular topic or procedure. Taxpayers may rely on IRS notices and announcements. They are considered "substantial authority" for purposes of the valuation accuracy-related penalty. In terms of legal authority, announcements and notices are the "equivalent of revenue rulings and revenue procedures" (according to Rev. Rul. 87-2).

Internal Revenue news releases (IRs)—

- Update taxpayers on compliance statistics.
- Remind taxpayers of recent changes in the IRC.
- Announce administrative appointments within the IRS.
- Release certain revenue rulings and procedures.

The IRs, announcements, and notices are issued periodically, but they are officially published in the IRB.

To rely on IRS pronouncements for professional guidance on valuation and other matters, CPAs need a working knowledge of IRS publications, understanding both their content and their relative precedent value. As true as this is for CPAs who rely on IRS pronouncements for professional valuation guidance in federal taxation matters, it is even truer for CPAs who rely on IRS pronouncements (even in part) for professional valuation guidance in litigation matters.

In the upcoming Part 2 of this article, we'll discuss IRS advance rulings and determinations, as well as new types of IRS pronouncements.

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